



# **CITY OF MILWAUKEE**

## **Annual Review of Lending Practices of Financial Institutions**

**W. MARTIN MORICS**  
City Comptroller

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# REVIEW OF LENDING PRACTICES OF FINANCIAL INSTITUTIONS

## I. INTRODUCTION

- A. Common Council Resolution (#890493) created the City of Milwaukee's socially responsible investment program. The resolution directed the Comptroller to annually prepare a Financial Institution Lending Report. The resolution also directed that data on lending activities should be requested from each financial institution as these activities relate to the lending goals adopted by the Common Council<sup>1</sup>. This is the seventh such lending report issued by the Comptroller.

This Report focuses on lending in the City's Targeted Single Family Loan Program Area (TA). This area was chosen as a target because it has lower property values, houses lower income families, has less homeowners and a higher vacancy rate than the City as a whole.

1. This Report is based on the following data:
  - 1990 through 1996 Home Mortgage Disclosure Act (HMDA) data.
  - Data on financial institutions' branches.
  - 1996 NOHIM Annual Report
  - 1990 census data.
  - 1994, 1995 and 1996 data from the Wisconsin Housing and Economic Development Authority (WHEDA).
  - 1996 Community Reinvestment Act small business lending data.
  - 1995 & 1995 Mortgage Insurance Companies of America's data.
  - 1995 & 1995 hazard & fire insurance data from Wisconsin's Office of the Commissioner of Insurance.
  - 1995, 1996 & 1997 lending data from the Department of City Development.

B. Data Limitations:

1. Residential Lending - One of the major limitations was the timeliness of HMDA data. HMDA data for 1996 is not available until September of 1997. Another drawback is that HMDA data excludes information on pooled funds established by multiple financial institutions or other special programs aimed at increasing TA, low income and minority lending. (Example: WHEDA Programs)
2. This Report includes non-refinancing residential loans originated where no race was indicated. In 1995 and 1996, no race was indicated on 1,217 residential loans (4.6% of metro area loans) and 1,665 HMDA residential loans (5.5% of metro area loans), respectively. The majority of the mortgages without race identified (55% in 1996) were home improvement loans. This may affect the minority and white percentage increases in lending shown in this Report. The high number of home

improvement loans where race is not available could have resulted from mail and phone applications for home improvement loans.

C. Refinancing Loan Data Excluded

This report excludes refinancing loans. This was done to prevent refinancing activity, which is driven by decreases in interest rate, from blurring the trends in new home ownership and home improvement loan activity. Within the Milwaukee Metropolitan Area, financial institutions originated 9,927 refinancing loans in 1995. Refinancing loans increased by over 200 percent to 20,274 in 1996. TA refinancing increased by 169 percent (408 in 1995; 691 in 1996). TA refinancing totaled 4.2 percent of the total metro area refinancing loans in 1995 and 3.4 percent of refinancing loans in 1996. Although metro area refinancing loans increased significantly between 1995 and 1996, this increase was smaller in the TA.

D. Hazard and Fire Insurance Data

The information was obtained from the Office of the Commissioner of Insurance and includes the Wisconsin Insurance Plan. Information on insurance renewals, non-renewals, and cancellations is not collected by the Insurance Commissioner's Office. Unlike HMDA data, which is available by census tract, insurance data is only available by zip code. Census Tracts do not directly match zip codes areas. For purposes of this report, only zip codes completely within the Target Areas are defined as TA zip codes.

E. Wisconsin Housing & Economic Development Authority (WHEDA)

WHEDA provided data on the HOME program, Home Improvement Loans program and Easy Closing (EZ) program. The requirements for loan applicants to qualify for WHEDA HOME program are shown in Note 3 on page 27. Like FHA and VA home improvement Loans, WHEDA home improvement loans are not reported separately in this report. Within the Milwaukee Metro Area, WHEDA made 37 home improvement loans in 1995 and 61 in 1996. Data on the EZ Closing program is shown on page 16.

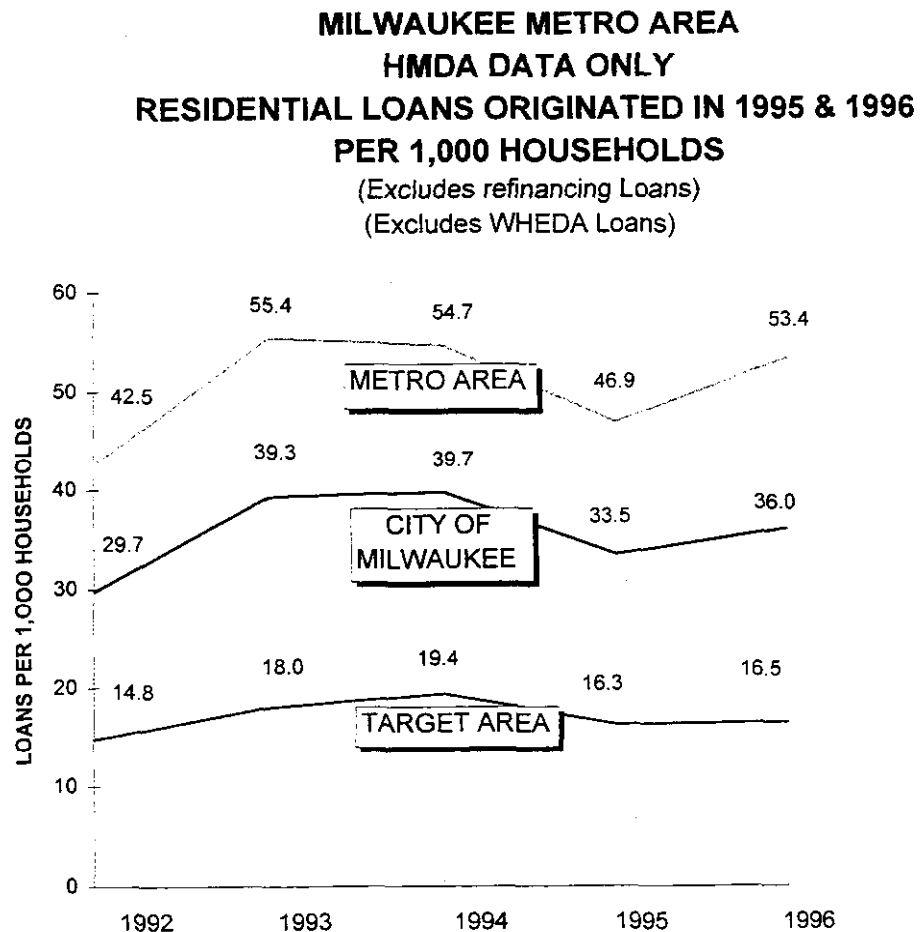
F. Definition of Income Areas

Low to Moderate Income Areas are defined as those census tracts in which median family income is less than 80% of the median family income of the metropolitan area. Middle Income Areas are those census tracts in which median family income is between 80% to 120% of the median family income of the metropolitan area, and Upper Income Areas include only census tracts with median family income exceeds 120% of the metropolitan area's median family income. The 1997 median family income for the Milwaukee Metro Area is \$50,700. The Income of loan applicants within these income areas may differ from the income range of the area.

## II. CONCLUSIONS -

### 1. 1996 TA per Household Residential Lending Remains Unchanged from 1995 While Lending in Other Areas of the Metro Area Increased

TA residential lending per household report by HMDA remain at about 16 loans per 1,000 households in 1996. However, Metro area lending per household increased by 14% (46.9 in 1995; 53.4 in 1996). Since 1992, on a per household basis, residential lending in the TA has consistently occurred at a rate approximately one-half of the citywide lending rate.



Ref: Graph -1a

When Wisconsin Housing & Economic Development Authority (WHEDA) loans are included with HMDA reported data, the TA's share of Metro Area per household lending increased to 34% (18.9 in TA; 55.9 in Metro Area) from 31% (16.5 in TA; 53.4 in metro area) for 1996. This increase in TA per household lending resulted because WHEDA originates over 12% of its loans in the TA as compared to 3.5% on metro area lending reported by HMDA.

**MILWAUKEE METRO AREA  
HMDA & WHEDA DATA  
RESIDENTIAL LOANS ORIGINATED IN 1995 & 1996  
PER 1,000 HOUSEHOLDS  
(Excludes refinancing Loans)**

	1994	1995	1996
<b>Milwaukee Metro Area</b>	57.5	49.5	55.9
<b>City of Milwaukee</b>	44.8	38.3	40.0
<b>Target Area</b>	21.8	18.9	19.0

A lower lending rate in the TA is to be expected as home ownership is lower in the TA. In addition, as generally less affluent, TA households face greater financial obstacles such as inadequate income, insufficient employment history, credit history problems, etc., compared to loan applicants outside the TA. The extent of this lending disparity should be closely monitored since it is one of measures available to determine if financial institutions are meeting the credit needs of the TA.

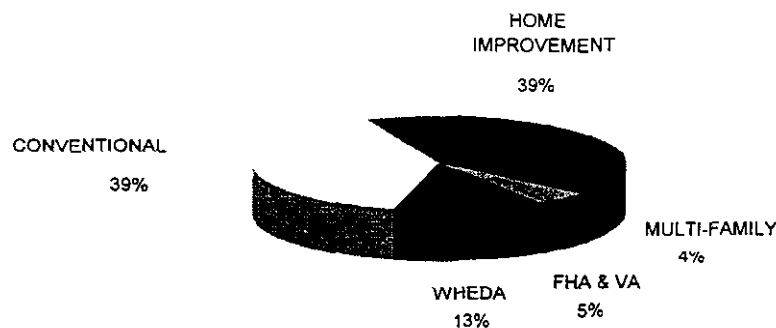
2. **Home Improvement Loans Account for Almost 40% of Total TA Loans Compared to 29% for Metro Area Lending and 22% Nationwide.**

Home improvement loans are a vital capital need for TA residents and the neighborhoods in which they live. This is shown by the high percentage of home improvement loans in the TA.

Home Improvement loans account for 39% of TA lending compared to 22% nationwide.

The higher levels of home improvement loans in the TA may be in part due to the older housing stock within the TA when compared to the metro area and nation as a whole.

**MILWAUKEE'S TARGET AREA**  
**PERCENTAGE OF RESIDENTIAL LOANS ORIGINATED IN 1996**  
 (Excludes refinancing Loans)



Ref: Graph-2a

	TARGET AREA 1996 PERCENT OF TOTAL		METRO AREA 1996 PERCENT OF TOTAL		NATIONAL TOTAL 1996 PERCENT OF TOTAL	
	1996	PERCENT OF TOTAL	1996	PERCENT OF TOTAL	1996	PERCENT OF TOTAL
FHA & VA	55	4.6%	1,561	5.2%	880,240	17.8%
WHEDA HOME PROGRAM	155	13.1%	1,263	4.2%		
CONVENTIONAL	471	39.7%	18,210	60.6%	2,926,097	59.3%
HOME IMPROVEMENT	458	38.6%	8,616	28.7%	1,105,799	22.4%
MULTI-FAMILY	47	4.0%	383	1.3%	23,268	0.5%
<b>TOTAL LENDING</b>	<b>1,186</b>	<b>100.0%</b>	<b>30,033</b>	<b>100.0%</b>	<b>4,935,404</b>	<b>100.0%</b>

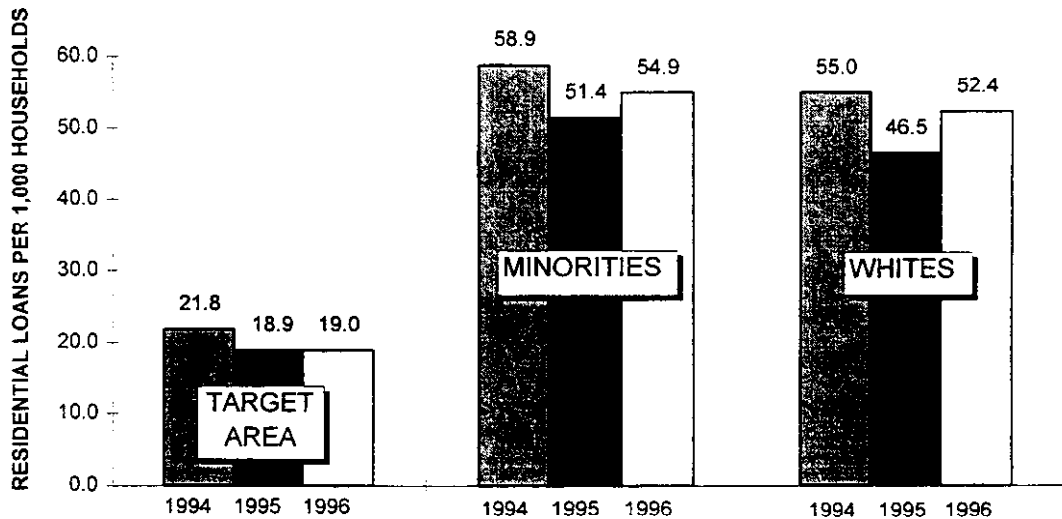
WHEDA HOME loan program makes up 13% of total TA lending and only 4% of Metro Area lending. This higher TA lending percent appears to be due to the special underwriting criteria that WHEDA uses to target low and moderate income loan applicants.

3. **Residential Lending for Minorities and Whites Increased While Lending Remained about the Same for TA Residents in 1996.**

Residential lending per 1,000 households increased by over 12% (46.5 in 1995; 52.4 in 1996) for whites and by almost 7% (51.4 in 1995; 54.9 in 1996) for minorities. However, TA lending remained about the same in both 1995 and 1996.

**MILWAUKEE METRO AREA  
HMDA & WHEDA  
RESIDENTIAL LOANS ORIGINATED  
PER 1,000 HOUSEHOLDS  
FOR 1994, 1995 AND 1996**

(Excludes Refinancing Loans)



Ref: Graph-3a

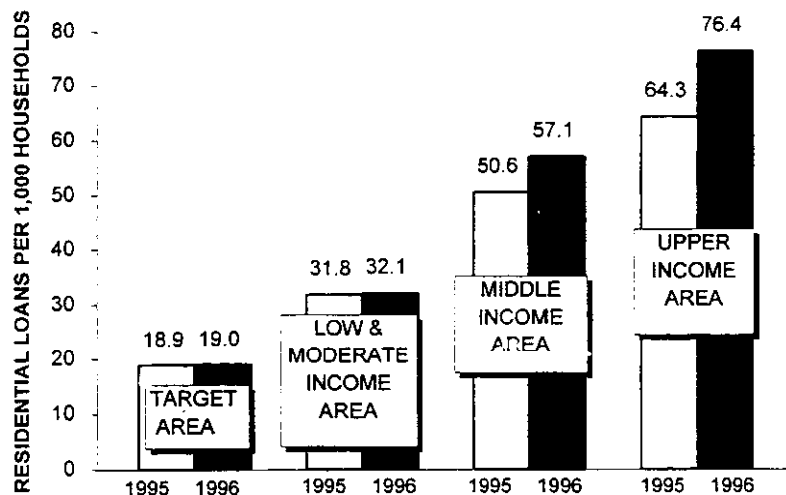
Based on this data, it appears that the **disparity in loan originations is more closely related to the location of the property than to the race of the applicant**. However, there remains significant racial disparity in loan denial rates. Denial rates are discussed later in this report.

4. **Low and Moderate Income Area Lending per Household is Less Than One-Half of Upper Income Areas.**

Another way to look at lending is by the characteristics of residents' income of an area. In fact, the Community Reinvestment Act focuses on area by requiring lenders to attempt to meet the financial needs of residents within low and moderate income areas.\*

Lending in low and moderate income areas totals about 32 loans per 1,000 households compared to 76 loans per 1,000 households in upper income area. Although most of the TA is within the low and moderate income area, TA per household lending is about 60% of lending to low and moderate income areas. (19.0 in TA; 32.1 in low and moderate income areas).

**MILWAUKEE METRO AREA  
HMDA & WHEDA  
RESIDENTIAL LOANS ORIGINATED IN 1995 & 1996  
PER 1,000 HOUSEHOLDS**  
(Excludes refinancing Loans)



Ref: Graph-4a

\* The income characteristics of an area may not have any correlation to the income of any specific loan applicant living within that area. (Example: Upper and middle income applicants apply for loans in low income areas.)

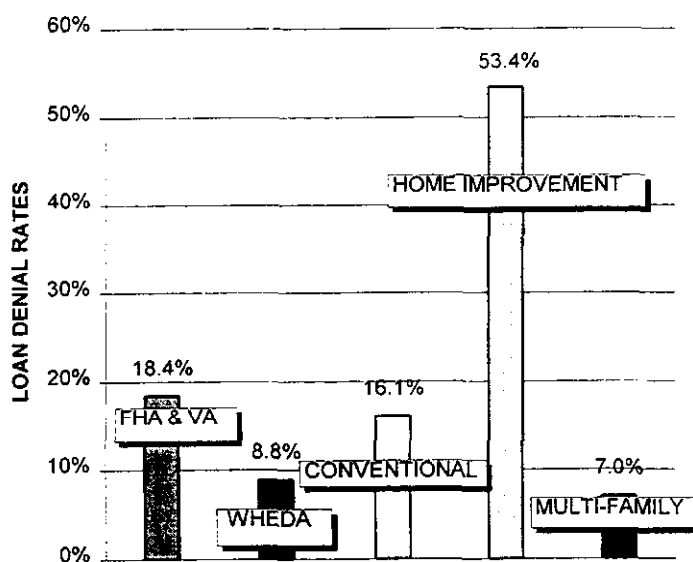


5. **Denial Rates for TA Home Improvement Rose to 53% in 1996, Increasing from 49% in 1995.**

No progress has been made in reducing the high TA denial rate for home improvement loans. In fact, the percentage of TA applicants denied home improvement loans has steadily increased over the past few years. **The denial rate for TA home improvement loans is almost three times higher than the denial rate for TA conventional mortgage loan applicants. In fact, when home improvement loan applications are excluded, the loan denial rate in the TA drops dramatically - from 37% to 14%.**

**MILWAUKEE'S TARGET AREA  
1996 DENIAL RATES  
BY TYPE OF LOANS**

(Excludes Refinancing Loans)



Ref: Graph-5a

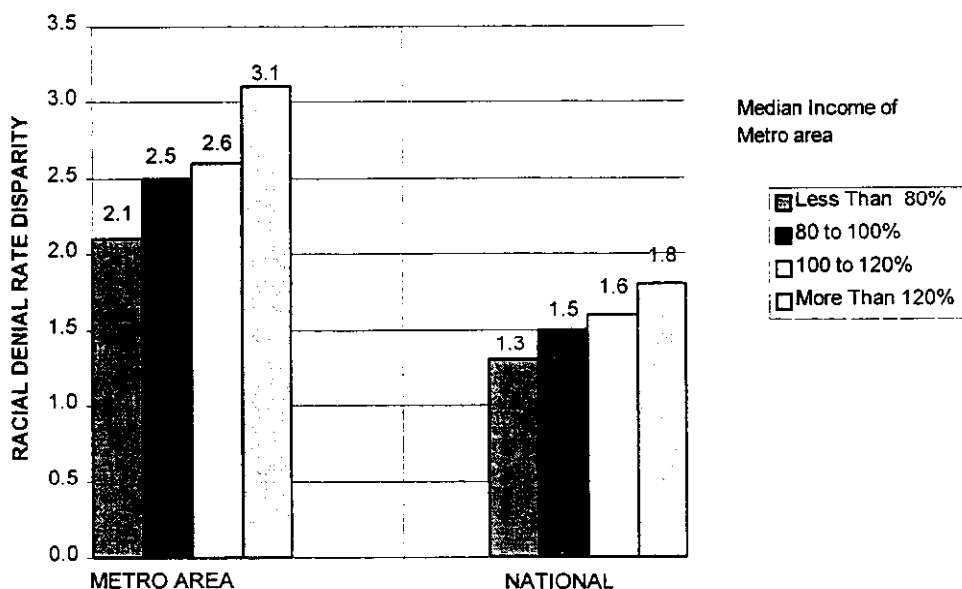
Since the applicant is already a homeowner and the lender is in most cases familiar with the applicant, one would expect home improvement loans to be among the lowest instead of the highest loan denial ratios. **Clearly, a larger portion of TA home owners needing home improvement financing are not able to acquire it.**

6. **Milwaukee Metro Area Racial Denial Rate Disparity Increases as Incomes Rise. Nationally, the Racial Denial Rate Disparity Also Increases for Higher Income Loan Applicants.**

In the Milwaukee Metro Area, the racial denial rate disparity between minority and white applicants rises from 2.1 for applicants with incomes under 80% of Metro area median income (\$40,560) to 3.1 for applicants with incomes over 120% of Metro area median income (\$60,840). Also, minority applicants with earnings over \$60,840 are more likely to be denied a loan than those white applicants with incomes of \$41,000.

**MILWAUKEE METRO AREA VS. NATIONAL AVERAGE  
HMDA DATA ONLY  
1996 MINORITY/WHITE LOAN DENIAL RATIOS  
BY MEDIAN INCOME OF METRO AREAS'  
LOAN APPLICANT**

(Excludes Refinancing Loans)



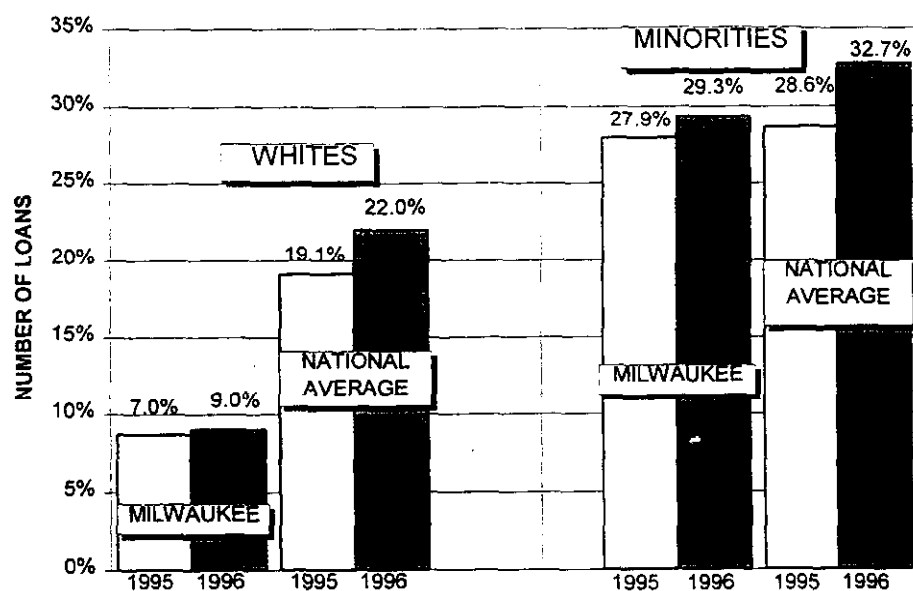
1997 Estimated Median Income of Milwaukee Metropolitan Area is \$50,700.

Ref: Graph-8

The most recent data shows that of the fifty largest Metropolitan Areas, Milwaukee still leads the US with the highest racial denial rate disparity, and leads it by a significant margin. Currently, in the Milwaukee Metro Area, 9% of white loan applicants are denied loans while over 29% of minority loan applicants are denied. This means that minorities in the Milwaukee Metro Area are denied at a rate which is over three times (3.3X) that of whites. (See Appendix A). As in past Reports, it has been correctly stated that the extremely low white loan denial rates - the lowest of the 50 metro areas - rather than high minority denial rates, have driven this Area's highest loan denial disparity rate. In fact, Equifax Risk & Usage Forecast recently concluded that Milwaukee's general population had the least amount of average consumer debt among the 50 largest cities in the US.

**NATIONAL AGGREGATE RESIDENTIAL LENDING  
HMDA DATA ONLY  
PERCENTAGE OF LOANS DENIED  
MILWAUKEE METRO AREA VS. NATIONAL AVERAGE  
FOR 1995 AND 1996**

(Excludes Refinancing Loans)  
(Excludes WHEDA Loans)



Ret: Graph - 6b

The high rate of home improvement loan denials to minorities contribute heavily to Milwaukee's overall highest ranking. When metro area home improvement loan applications are removed, Milwaukee's minority-to-white loan denial ratio drops from 3.3 to 2.5. This 2.5 denial ratio remains the highest of the 50 largest metro areas with 13.1% of Milwaukee Metro minorities' loan applications (excluding home improvement applications) denied. However, **this 13.1% of minority loan applications denied in Milwaukee is the SEVENTH LOWEST denial rate among the nation's 50 largest metro areas.** Clearly, the high rate of minority home improvement loan applications heavily influences Milwaukee's overall poor loan performance compared to other metro areas.

Another meaningful perspective on Milwaukee's high minority-to-white loan denial ratio can be gained by looking at the trend in this ratio since 1980. Milwaukee's racial loan denial rate disparity was not always so high. Since 1982 this Metro Area loan denial rate disparity between whites and minorities has nearly doubled from 1.7 to its current 3.3 rate in 1996, with the greatest increase in the mid to late 1980s. The question then becomes, 'What happened in this period when the rate at which our area's minority loan applicants were denied doubled when compared to white applicant denials?'

Census data does provide some insight. During the 1980's this area's economy withstood a major restructuring from one driven by large manufacturers to one in which financial and other service industries predominated. While manufacturing value added actually increased from its pre-1980 values as time passed in the Milwaukee Metro area, much of the manufacturing process was automated, resulting in a loss of over 33,000 area manufacturing jobs. Apparently, this economic restructuring had a disproportionate impact on area minorities. During the 1980-90 decade Milwaukee's minority unemployment rate increased from 14% to 18% while the white unemployment rate held steady at 5%. The growing unemployment gap between Milwaukee's white and minority populations clearly contributed to its growing racial loan denial disparity. The wide economic disparity between minorities and whites in Milwaukee has also often been stated in previous Reports and in many other sources. This helps explain why minority loan denial rates are not also proportionally lower in Metro Milwaukee.

In addition, census data also shows that the incidence of single parent heads of household in Milwaukee became an increasingly more typical structure for minority families during the 1980-90 decade than for white families. During this period, the percentage of single parent heads of household for Milwaukee minorities increased from 46% to 53%, while white single parent heads of household also grew, but from a much lower base (16% to 19%). Many families, especially those of moderate income, require two incomes to purchase a home. A second income also provides for additional security in the event one wage earner becomes disabled or is temporarily unemployed. Without the economic benefit of a second income, by 1990 over one half of minority households faced a significant barrier to home ownership.

While probably unrelated to Milwaukee's racial loan disparity ranking, credit scoring is another factor which may have induced higher loan denial rates in both Milwaukee and nationwide in recent years. Credit scoring and other risk based models have increasingly been used to determine the credit worthiness of a loan applicant. While credit scoring makes it faster and less expensive to evaluate credit history, critics say that this method can be exceedingly arbitrary, without adequate consideration of the special credit circumstances of many low and moderate income applicants.

**7. The Recent Bank Mergers have Reduced the Number of Available Branches in the TA.**

Since 1996, four bank branches within the Target Area closed while only two bank branches were opened (see table below). This has resulted in the total number of stand-alone financial institutions' service branches available in the TA to decrease from 31 to 29.

**TARGET AREA  
FINANCIAL INSTITUTIONS' BRANCHES  
OPENED/CLOSED IN 1996 and 1997**

<b>New Branches</b>	
<b>1996</b>	
North Milwaukee State Bank	1620 W. Wells St.
North Shore Bank	1900 N. Martin Luther King Drive
<b>1997</b>	
None	
<b>Closed Branch</b>	
<b>1996</b>	
Firststar Bank Milwaukee	4025 N. Teutonia Ave.
Badger Bank	20th & Fond du Lac Ave.
<b>1997</b>	
Securty Bank	184 W Wisconsin Ave.
Security Bank	1839 N Martin L. King Drive

The reduction in the number of independent bank branches in the TA may impact the availability of credit to TA residents. The future availability of branch banks within the TA is somewhat uncertain. The recent trend toward bank mergers with resulting staff and service cutbacks may continue to reduce the number of available branches in the TA in the future years.

**8. While Lending in the Target Area Remains Low, Some Area Financial Institutions Consistently Provide More Loans in the TA than Others.**

Based on 1996 and 1997 HMDA and WHEDA data, a significant variance exists between financial institution lending activity within the TA as shown in the following tables. This table included forty-three lenders with branch's offices in or around Milwaukee and are ranked based on the percentage of 1996 TA lending. Information on the dollar amount of TA lending and percentage of lending to minorities and TA residents is included in Appendix B (pages 29-44) of this report. Appendix B includes additional lending data on all lenders with offices in the metro area and 20 or more loan originations.

**MILWAUKEE METROPOLITAN AREA  
HMDA & WHEDA DATA  
PERCENTAGE OF RESIDENTIAL LENDING  
TO THE TARGET AREA  
RANKED BY PERCENTAGE OF 1996 LENDING IN THE TA**

**Over \$15 Million in Residential Loans**

( Excludes Refinancing Loans )

**Loans Originated**

FINANCIAL INSTITUTION	1995 Total Loans	1996 Total Loans	1995 Target Area	1996 Target Area
<b>Bank One, Milwaukee, NA <sup>(1)</sup></b>	<b>2,015</b>	<b>1,836</b>	<b>6.3%</b>	<b>6.8%</b>
<b>St. Francis Bank, FSB</b>	<b>944</b>	<b>1,262</b>	<b>9.9%</b>	<b>6.0%</b>
<b>The Equitable Bank, S.S.B.</b>	<b>658</b>	<b>646</b>	<b>4.9%</b>	<b>5.7%</b>
<b>Firststar Bank of Milwaukee</b>	<b>1,644</b>	<b>1,672</b>	<b>6.3%</b>	<b>5.6%</b>
<b>Security Bank, S.S.B.</b>	<b>1,040</b>	<b>1,515</b>	<b>5.1%</b>	<b>5.6%</b>
Martime Savings Bank	296	242	3.0%	5.4%
Mitchell Savings Bank, S.A.	114	316	9.6%	5.4%
North Shore Bank, FSB	650	863	3.2%	5.1%
Wauwatosa Savings Bank	621	665	4.2%	4.7%
First Financial Bank, FSB	1,466	1,197	4.6%	4.5%
Mutual Savings Bank of Wisconsin, S.A.	574	590	3.0%	3.6%
M & I Bank, Marshall & Ilsley Corp. <sup>(2)</sup>	2,046	1,923	5.6%	3.6%
Tri City National Bank	225	390	6.2%	2.8%
Norwest Bank Wisconsin <sup>(3)</sup>	631	931	5.9%	2.6%
Guaranty Bank, S.S.B. <sup>(5)</sup>	972	1,334	2.9%	2.3%
Universal Savings Bank, S.A. <sup>(7)</sup>	300	679	5.0%	1.8%
West Allis Savings Bank, S.A.	308	281	1.9%	1.4%
Associated Bank <sup>(6)</sup>	800	691	3.4%	1.3%
Wisconsin Mortgage Corporation	992	925	1.1%	1.1%
South Milwaukee Savings Bank	106	213	0.9%	0.9%
Great Midwest Bank, S.S.B.	325	388	0.6%	0.8%
<b>Total Metro Area</b>	<b>24,987</b>	<b>30,033</b>	<b>4.0%</b>	<b>3.9%</b>

HMDA & WHEDA DATA  
PERCENTAGE OF RESIDENTIAL LENDING  
TO THE TARGET AREA  
RANKED BY PERCENTAGE OF 1996 LENDING IN THE TA

**Under \$15 Million in Residential Loans**

( Excludes Refinancing Loans )

**Loans Originated**

FINANCIAL INSTITUTION	1995 Total Loans	1996 Total Loans	1995 Target Area	1996 Target Area
<b>Liberty Bank</b>	<b>67</b>	<b>66</b>	<b>32.8%</b>	<b>25.8%</b>
<b>North Milwaukee State Bank</b>	<b>23</b>	<b>24</b>	<b>4.3%</b>	<b>25.0%</b>
<b>Reliance Savings Bank</b>	<b>24</b>	<b>12</b>	<b>4.2%</b>	<b>16.7%</b>
<b>Park Bank</b>	<b>99</b>	<b>53</b>	<b>17.2%</b>	<b>15.1%</b>
<b>Bay View Federal Savings &amp; Loan Ass</b>	<b>25</b>	<b>30</b>	<b>8.0%</b>	<b>13.3%</b>
<b>Advantage Credit Union</b>	<b>54</b>	<b>38</b>	<b>13.0%</b>	<b>13.2%</b>
Milwaukee Metropolitan Credit Union	61	64	8.2%	12.5%
State Financial Bank	145	164	6.9%	11.6%
TCF Bank	348	188	4.9%	10.6%
Mitchell Bank	30	21	13.3%	9.5%
Columbia Savings & Loan Association	28	33	25.0%	9.1%
Layton State Bank	16	23	12.5%	8.7%
Continental Savings Bank, S.A.	99	111	10.1%	8.1%
Milwaukee Western Bank	31	38	6.5%	7.9%
Kilbourn State Bank	150	64	3.3%	7.8%
State Central Credit Union	97	73	7.2%	6.8%
First Bank (N.A.) Milwaukee <sup>(4)</sup>	240	108	7.1%	5.6%
Marquette Saving Banks, S.A.	39	24	12.8%	4.2%
Lincoln Savings Bank	48	59	4.2%	3.4%
Guardian Credit Union	157	299	5.1%	3.0%
Fleet Mortgage Corp.	101	96	2.0%	2.1%
Lincoln State Bank	29	44	13.8%	0.0%
<b>Total Metro Area</b>	<b>24,987</b>	<b>30,033</b>	<b>4.0%</b>	<b>3.9%</b>

Notes: 1) Includes Banc One Mortgage Corporation and Banc One Financial Services; 2) Includes M&I Mortgage and M&I Northern; 3) Includes Norwest Mortgage, Inc.; 4) Includes FBS Mortgage Corporation; 5) Includes Shelter Mortgage & Guaranty Mortgage; 6) Includes Associated Mortgage, Inc.; 7) Includes Universal Mortgage Corporation

The majority of lending institutions in Milwaukee are relatively small and have developed a limited service area. Many of these institutions have therefore focused residential mortgage lending on a nearby geographic service area which largely or totally exclude the TA. In addition, certain larger institutions serving the entire metro area have done limited residential lending in TA census tracts. However, large or small, the Community Reinvestment Act challenges all regulated institutions to help meet the vital need for residential loans to those located in the central city.

9. **The City, WHEDA & NOHIM Offer Programs Aimed at Low Income and Central City Loan Applicants.**

**CITY OF MILWAUKEE**

The Department of City Development (DCD) offers home repair and home rehabilitation loans to City of Milwaukee homeowners as well as investor-owners. The purpose of the loan programs is to assist citizens in obtaining money necessary to repair or rehabilitate existing housing stock.

Accordingly, the **Home Rehabilitation and Greenline Programs** offered by DCD are designed to make low-interest loans to assist homeowners in making improvements on their homes. In addition, technical assistance is provided to help homeowners with this process. In 1997, homeowners with incomes below 80% of the median income (\$50,700) accounted for the majority of loans originated under these programs.

**LENDING ACTIVITY FOR SELECTED  
DEPARTMENT OF CITY DEVELOPMENT  
LENDING PROGRAMS**

	1995		1996		1997	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
<b>OWNER-OCCUPIED LENDING</b>						
Home Rehabilitation Loan	147	\$1,619,017	143	\$1,572,941	132	\$1,790,429
Greenline	—	—	50	\$257,438	53	\$261,369
<b>INVESTOR-OWNER LENDING</b>						
Rental Rehabilitation	51	\$705,835	48	\$548,740	72	\$856,296
Buy In Your Neighborhood	6	\$34,200	7	\$60,800	21	\$186,920

DCD also has home rehabilitation as well as financing programs for the “owner-investor”. The **Rental Rehabilitation Program** makes forgivable matching loans to responsible landlords who, in turn, must agree to keep rents affordable to low and moderate income families. The “**Buy in Your Neighborhood Program**” works with local lenders to help homeowners invest in their neighborhoods by providing financing for investment properties near their homes. In 1997, almost half of these loans were made to low income owner-investor loan applicant.

In total, participation by Milwaukee residents in all four DCD programs increased by 12% in 1997 (1996: 248 to 1997: 278), with the loan volume increasing by almost 29% (1996: \$2.4 million; 1997: \$3 million). Since the target citizenry are those who meet Housing and Urban Development (HUD) income criteria and/or reside within an area that includes TA, these programs offered by DCD are vital to the sustained improvement of Milwaukee’s Neighborhoods.



## WHEDA EZ CLOSING PROGRAM

A loan applicant who is eligible for WHEDA HOME loan program with income less than \$35,000 may also be eligible for Easy Close (EZ) Program. This program provides deferred loans of up to \$1,000 for individuals needing assistance with home mortgage closing costs. EZ loans are for up to five years and carry the same interest rate as HOME loans.

### MILWAUKEE METRO AREA WHEDA EZ CLOSING PROGRAM

	1995	1996
Total Loans	75	269
% to Minorities	78.7%	67.7%
% to TA	30.7%	21.6%

## NEW OPPORTUNITIES FOR HOMEOWNERSHP INITIATIVE IN MILWAUKEE

New Opportunities For Homeownership Initiative in Milwaukee (NOHIM) comprises financial institutions, community groups that provide homebuyer counseling and the City of Milwaukee. NOHIM's mission is to increase home ownership for low and moderate income families. NOHIM provides a mutually beneficial partnership which allows financial institutions and homebuyer counseling agencies to enter into loan packaging, referral and service arrangements. NOHIM also provides training and outreach designed to help its members improve their ability to provide financing for low income Milwaukee homebuyers.

NOHIM increased pre-purchasing counseling in Milwaukee by over 7% (1,819 in 1995; 1,955 in 1996). Loans closed through NOHIM also increased slightly to 389 in 1996 from 380 in 1995.

### NOHIM HOMEBUYER COUNSELING ACTIVITY SUMMARY 1991 THRU 1996

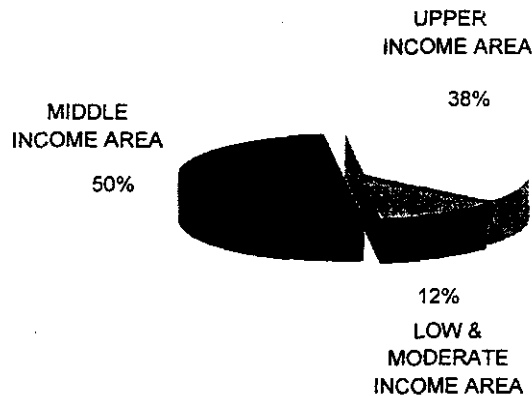
YEAR	PRE-PURCHASE COUNSELING	NUMBER OF MORTGAGES CLOSED	AMOUNT OF MORTGAGES CLOSED (in millions)
1991	742	103	\$ 3.9
1992	874	175	5.8
1993	1,182	239	8.0
1994	1,217	254	10.0
1995	1,819	380	15.9
1996	1,955	389	17.8

10. Like Residential Lending, a Significant Disparity Exists Between Lenders in Business Loans to Low and Moderate Income Areas.

This marks the first year that business data was collected by the Federal Institutions Examinations Council.

In 1996, 15,796 business loans was issued in the Milwaukee Metro Area. Of this total, 1,886 or 12%, was issued in the low to moderate income areas. The TA business loans, on the other hand, are 6.7% of metro area loans. This compares favorably to TA residential lending of 3.9% of metro area loans.

**MILWAUKEE METRO AREA  
PERCENTAGE OF BUSINESS LOANS ORIGINATED IN 1996  
BY INCOME OF AREA**



Ref: Graph-11

	METRO AREA 1996 PERCENT OF TOTAL	
	1996	
LOW & MODERATE INCOME AREAS	1,886	12.0%
MIDDLE INCOME AREAS	7,902	50.0%
UPPER INCOME AREAS	5,991	37.9%
TOTAL BUSINESS LENDING*	15,796	
TA BUSINESS LOANS	1,023	6.7%

\* Income Area not available for 17 loans (0.1%).

Based on 1996 data, a significant variance exists between financial institution business lending activity within low-to moderate income areas, as shown in the table below. This table includes twenty-three lenders with branch's offices in or around Milwaukee.

**MILWAUKEE METROPOLITAN AREA  
PERCENTAGE OF BUSINESS LENDING  
TO THE LOW & MODERATE INCOME AREAS**

FINANCIAL INSTITUTION	<b><u>Over \$5 Million in Business Loans</u></b> ( Excludes Refinancing Loans ) <b><u>Loans Originated</u></b>			
	1996	1996	1996	1996
	Total Loans	Low Income Areas Loans	Moderate Income Income Areas	Low & Moderate Income Areas
<b>First Bank (N.A.)</b>	<b>357</b>	<b>50</b>	<b>27</b>	<b>21.6%</b>
<b>Norwest Bank Wisconsin</b>	<b>233</b>	<b>22</b>	<b>26</b>	<b>20.6%</b>
<b>Park Bank</b>	<b>492</b>	<b>46</b>	<b>49</b>	<b>19.3%</b>
<b>Heritage Bank &amp; Trust</b>	<b>93</b>	<b>4</b>	<b>13</b>	<b>18.3%</b>
<b>M &amp; I Bank, Marshall &amp; Ilsley Corp.</b>	<b>1,609</b>	<b>109</b>	<b>184</b>	<b>18.2%</b>
Firststar Bank Milwaukee	1,035	68	91	15.4%
American Express	1,369	73	126	14.5%
Tri City National Bank	340	12	35	13.8%
Security Bank S.S.B.	89	6	5	12.4%
Associated Bank Milwaukee	944	73	42	12.2%
M & I Bank, Northern Bank	1,098	48	69	10.7%
Bank One, West Bend	1,580	108	58	10.5%
Firststar Bank Wisconsin	280	4	25	10.4%
TCF Bank Wisconsin FSB	82	3	5	9.8%
Bank Wisconsin	334	30	-	9.0%
American National Bank & Trust	64	1	4	7.8%
Mutual Savings Bank	76	2	3	6.6%
M & I Bank of Menomonee Falls	541	20	12	5.9%
Waukesha State Bank	712	1	38	5.5%
M & I Lake Country Bank	1,316	16	16	2.4%
National Exchange Bank & Trust	45	-	1	2.2%
1st Source Bank	87	-	1	1.1%
M & I First National Bank	618	-	-	0.0%
<b>Total Metro Area</b>	<b>15,799</b>	<b>842</b>	<b>1,044</b>	<b>11.9%</b>

**11. Mortgage Insurance Policies Issued by Private Mortgage Insurers in the TA  
Decreased By 25%.**

In 1996, only 165 mortgage insurance policies were issued in the TA compared to 219 issued last year. This represents a decrease of over 25 percent between 1995 and 1996. This is especially significant since there was relatively no change in TA lending during this time period.

GE Capital Mortgage Insurance Corp. is the leading insurer of conventional mortgages in the TA with 93 policies issued in 1996. The following table ranks MICA (Mortgage Insurance Corporation of America) mortgage insurance companies by the percentage of Milwaukee metro area mortgage insurance policies issued in the Target Area.

**MILWAUKEE METROPOLITAN AREA  
PERCENTAGE OF INSURED CONVENTIONAL  
RESIDENTIAL MORTGAGES  
IN THE TARGET AREA**

( Excludes Refinancing Loans )

MORTGAGE INSURANCE CORPORATION	1996 Total Loans	1996 Target Loans	1996 Target Area
GE Capital Mortgage Insurance	1,386	93	6.7%
PMI Mortgage Insurance Co.	163	7	4.3%
Republic Mortgage Insurance	131	4	3.1%
Commonwealth Mortgage	88	2	2.3%
Mortgage Guaranty Insurance	2,169	46	2.1%
United Guaranty Corporation	844	11	1.3%
Amerin Guaranty Insurance	162	2	1.2%
Triad Guaranty Insurance	5	0	0.0%
<b>Total -1996</b>	<b>4,948</b>	<b>165</b>	<b>3.3%</b>
<b>Total -1995</b>	<b>5,797</b>	<b>219</b>	<b>3.8%</b>

The availability of mortgage insurance for home buyers with small down payments impacts financial institutions' ability to make conventional mortgages to such applicants. In 1996, 37 percent of TA conventional mortgages are insured by mortgage insurance companies compared to about half of TA mortgages in 1995.

Although denial rates increased for residential loan applicants, the denial rates reported by mortgage insurance corporations declined between 1995 and 1996 for both whites and minorities. Mortgage insurance companies denied minority mortgage insurance applications 2.5 times as often as applicants by whites within the Milwaukee Metro Area. The table below shows the mortgage insurance denial rates for MICA members.

MILWAUKEE METROPOLITAN AREA  
PERCENTAGE OF INSURED CONVENTIONAL  
RESIDENTIAL MORTGAGES  
FOR 1996

( Excludes Refinancing Loans )

MORTGAGE INSURANCE CORPORATION	Disparity	White Denial Rates	Minority Denial Rates
Triad Guaranty Insurance	-	-	-
GE Capital Mortgage Insurance	1.1	1.8%	2.1%
Commonwealth Mortgage	3.7	8.6%	32.1%
Amerin Guaranty Insurance	-	16.7%	-
Mortgage Guaranty Insurance	2.8	3.9%	10.8%
Republic Mortgage Insurance	5.1	1.1%	5.6%
PMI Mortgage Insurance Co.	3.2	3.9%	12.5%
United Guaranty Corporation	5.8	2.2%	12.6%
<b>Metro Area Total - 1996</b>	<b>2.5</b>	<b>3.0%</b>	<b>7.6%</b>
<b>Metro Area Total - 1995</b>	<b>2.5</b>	<b>3.4%</b>	<b>8.6%</b>

**12. Wisconsin Insurance Plan, Insurer of Homeowners that are Otherwise Deemed Uninsurable by Private Insurers, was the Leading Issuer of Hazard & Fire Insurance Policies Within the TA in 1996.**

Of the 123,586 insurance policies issued within the Milwaukee Metro Area in 1996, 4,325 or 3.5% of these policies were issued in the TA. The Wisconsin Insurance Plan (WIP) issued 37.4% (881 policies) of its policies in the TA, whereas American Family Mutual Insurance Co., the largest Metro Area insurer issued only 1.7% (837 policies) of its policies in the TA.

**MILWAUKEE METRO AREA  
HAZARD, FIRE & RENTER'S INSURANCE POLICIES  
BY PERCENTAGE OF POLICIES IN TA ZIP CODES  
FOR 1995 AND 1996**

<b>INSURER</b>	<b>1995 Total Policies</b>	<b>1995 Target Area</b>	<b>1996 Total Policies</b>	<b>1996 Target Area</b>
Wisconsin Insurance Plan (WIP)	2,725	39.0%	2,353	37.4%
State Farm General	3,840	14.0%	3,466	14.6%
Allstate Insurance	3,047	9.1%	3,020	9.1%
Germantown Mutual	3,763	9.1%	3,461	9.0%
Milwaukee Mutual	2,563	8.0%	2,200	8.1%
Wisconsin Mutual	872	4.9%	902	5.3%
West Bend Mutual	3,228	4.1%	3,319	4.4%
Wilson Mutual	-		26	3.8%
General Casualty	3,828	3.5%	3,732	3.7%
Auto Owners	54	0.0%	60	3.3%
Heritage Mutual	9,468	3.0%	8,637	3.2%
Prudential Prop & Cas	2,520	2.3%	2,242	2.6%
Secura Insurance	2,772	2.3%	2,352	2.4%
State Farm Fire & Cas	11,331	1.8%	11,178	2.0%
Sentry Insurance	3,759	1.9%	3,966	1.9%
Fire Insurance Exchange	3,856	1.6%	3,749	1.8%
Badger Mutual	-		7,140	1.7%
American Family Mutual	50,572	1.6%	49,767	1.7%
Rural Mutual	404	2.2%	371	1.6%
Economy Preferred	2,345	1.1%	2,489	1.3%
Integrity Mutual	947	1.2%	765	1.0%
Milwaukee Guardian	3,520	0.9%	6,377	1.0%
Regent Insurance	1,945	1.0%	2,014	0.8%
<b>TOTAL</b>	<b>117,359</b>	<b>3.7%</b>	<b>123,586</b>	<b>3.5%</b>

The Target Area includes the following zip codes: 53203, 53205, 53206, and 53223.

In order to obtain homeowner's or fire insurance under the WIP, the applicant must have been denied coverage by other licensed insurers. WIP insurance is a more expensive insurance. As a result, in many TA homeowners pay higher premiums than those charged by other insurers for a similar insurance coverage.

### III. RECOMMENDATIONS

Below is the status of recommendations contained in prior lending reports including additional recommendations relating to an addressing questions on disparity issues, reporting of low and moderate income areas, and the availability of FHA insurance to homebuyers.

1. **The City Should Investigate the High Loan Denial Rates for Home Improvement Loans in the TA.**

TA denial rates for home improvement loans have been on the rise for the past five years, up from 42 percent in 1992 to 53 percent in 1996. The loan applicant's unfavorable credit history is the single-most reason for these high loan denial rates. Since home improvement loans make up almost 40% of total TA lending and are vital to the sustained renewal of TA neighborhoods, financial institutions should closely examine the specific underwriting criteria as they relate to potential TA customers.

Further action is needed on this recommendation. This recommendation was made in the 1993 Lending Report. Until additional emphasis is place on the problems on Home Improvement denial, the credit needs of the central city will continue to be undeserved. Possibly, the Fair Lending Coalition or an appropriate financial institution trade association can analyze the high home improvement loan denial rate in the TA, and suggest practical ways to reduce the rate of loan denials.

2. **The City, Financial Institutions and Involved Community Groups Need to Examine the High Minority Loan Denial Rate Due to the Credit History of the Loan Applicant.**

Credit history problems continue to remain the major reported barrier to home ownership or home improvement for minorities in the metro area. In 1996, 20 percent of the loan denials for minorities were based on credit history, an increase of 18% from 1995, compared to 4 percent for whites. Until this issue is successfully addressed, Milwaukee will continue to have one of the highest racial disparity rates in the country.

Further action is still needed on this recommendation. Presently, no survey and/or analysis has been conducted to determine the most effective counseling approaches among the existing financial institutions and community agencies efforts at mortgage/credit counseling. Such a survey is again recommended. The objective would be to determine what efforts work best and why.

**3. The Closing and Opening of Financial Institutions Branches in the TA Will Need to be Monitored. - Being Implemented by the Comptroller.**

With the recent trend of bank mergers, it is crucial that future lending reports continue to monitor the closing and opening of Financial Institutions Branches within the TA. Clearly, the availability of Financial Institutions within the TA is vital for the community's residential lending needs.

The Comptroller's Annual Lending report will continue to disclose the number of financial institution branches within the TA, and the major reasons for changes which do occur. This adequately addresses this recommendation.

**4. The Availability of Mortgage Insurance to TA Loan Applicants Needs to be Reviewed to Determine the Impact on TA Lending.**

In 1996, about one-third of TA conventional mortgages were insured by mortgage insurance companies compared to almost half of TA mortgages in 1995. This was about a 30% decrease in the number of mortgage insurance policies issued compared to a 7% increase in the number of TA mortgage loans originated during the same time period.

Mortgage insurance policies are critical for those homebuyers with small down payments, as it impacts the financial institution's ability to make conventional mortgages to such applicants. The ideas and suggestions of MICA (Mortgage Insurance Corporation of America) should be sought to increase the availability of affordable housing loans to TA residents.

To the extent possible, future lending reports will continue to review the availability of mortgage insurance.

**5. The Availability of Hazard and Fire Insurance Needs to be Monitored.**

In 1995, American Family Mutual Insurance Company settled a lawsuit on alleged discrimination (redlining). Results of the settlement included a provision that \$5 million be provided to injured individuals and \$9.5 million provided for community-based organizations.

As the leading insurer of total insurance policies within the City of Milwaukee, American Family issued a total of 837 TA hazard and fire insurance policies in 1996. On the other hand, Wisconsin Insurance Plan, who insures homeowners deemed uninsurable by private insurers, issued 2,353 such policies during in 1996.

This year's Report addresses this issue. The availability of property insurance to TA homeowners needs to be monitored for all major insurers, as it is necessary for home



ownership, and the potential for redlining still exists. To the extent possible, we will continue to address this issue in future reports.

**6. There is a Need for Expanded Credit Counseling Services Particularly for Potential Home Improvement Loan Applications to Reduce the Denial Rates for Home Improvement Loans.**

With the introduction of credit scoring and loan risk models by Fannie Mae and Freddie Mac in 1996, and the conventional loan denial rates on the rise, the pre-mortgage counseling services provided by credit counseling agencies play a key role in assisting prospective first time homebuyers in various aspects of the homebuying process.

However, counseling services need to be expanded to include home improvement loan applicants, especially since denial rates for these loans appear to increase each year (See recommendation #1). With the additional counseling services, the home improvement loan denials for TA residents could decrease resulting in an improvement in the central city's housing stock.

Further action is still needed on this recommendation.

**New Recommendations:**

**7. The Lending Community - Financial Institutions , NOHIM, Community Groups like the Fair Lending Coalition - Need to Respond to Questions Raised by Denial Rate Disparities.**

For the past several years, the Lending Report has shown data which has consistently disclosed the raised the following questions:

- How can Milwaukee lose its first place ranking for the highest racial denial rate disparity among the nation's 50 largest areas?
- How can the high denial rates for home improvement loans within the TA be lowered?
- How can the increase in racial denial rate disparity as incomes rise among metro area residents be changed?

**The lending community should make a concerted effort in 1998 to address these questions related to the TA lending problems and racial disparity in Milwaukee, particularly those related to home improvement loan denials.**